

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2000-140

June 29, 2000

NORTHERN UTILITIES, INC.,
Proposed Cost of Gas
Factor for the 2000
Summer Period – Mid-Course Correction

ORDER

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY

We approve Northern Utilities, Inc.'s (Northern) proposed mid-course Cost of Gas Factor (CGF) correction of \$0.0974 per Ccf for the four remaining months of the 2000 summer period.

II. PROCEDURAL HISTORY

On June 2, 2000, Northern filed with this Commission an application pursuant to 35-A M.R.S.A. § 4703 and Chapter 43(2) of the Commission's Rules for a mid-course correction of its summer period cost of gas adjustment (CGA). Northern asserts that this rate change is necessary because of significant increases in gas commodity costs that have occurred to date or are forecasted for the remaining summer period. The filing states that updated forecasted supplier prices have increased the Company's expected commodity costs from \$4,307,779, as originally filed on April 11, 2000, to \$5,864,572. On a per Ccf basis, Northern asserts commodity costs now average \$0.3947 per Ccf, \$0.1039 per Ccf higher than the average commodity cost assumed in the currently approved rate. Accordingly, Northern projects an under-collection of \$1,556,793 for this summer period.

Northern has calculated three different possible time frames for recovery of the projected under-collection, as follows: a 4-month period from July 1, 2000 through October 31, 2000; a 6-month period from May 2001 through October 2001; or a 10-month period from July 1, 2000 through October 31, 2000 and May 2001 through October 2001. Northern prefers collection over the 10-month period.

On June 6, 2000, the Commission issued a Notice of Application to interveners in prior CGA cases and by publication in newspapers of general circulation in Northern's service area. This notice invited interested persons to petition for intervention in this matter by June 12, 2000. No petitions were received.¹

¹ The Office of Public Advocate (OPA) intervened when Northern made its original Summer 2000 CGA filing.

A preliminary hearing was held on June 15, 2000 at which the parties and Advisory Staff discussed the issues arising in the case. At that hearing, the Staff and parties agreed that Northern would revise its filing to reflect a resolution among the participants in this case by June 22, 2000, as described below.

On June 19, 2000, the Office of Public Advocate granted an ex parte waiver to allow the Advisory Staff to discuss with Northern any follow-up questions related to the calculations of the revised mid-course correction.

On June 22, 2000, Northern filed its revised mid-course correction request. The Commission considered the revised mid-course correction at a special deliberative session on June 29, 2000.

III. RECORD

The record in this proceeding includes all filings, data responses, transcripts, and any other materials provided in this proceeding.

IV. DISCUSSION

At its current rate, Northern projects a total period under-collection of approximately \$1,556,793, representing approximately 19.6% of its total gas costs, due to significant increases in gas supply prices for the summer period over original projections. Northern has not made any changes in its sales forecasts for the summer period.

Gas futures prices have risen approximately \$.09 per ccf since Northern's original summer 2000 gas adjustment rate was approved on April 28, 2000. Without a mid-course adjustment, this significant market price increase would result in a total period under-collection of approximately twice the reconciliation amount currently in rates. Consequently, we conclude that a mid-course correction is warranted.

Northern filed three recovery alternatives for collection of the projected total period under-recovery: 1) over the remaining four months of the 2000 summer period; 2) over the six month summer 2001 period; or 3) over the 10-month period that includes both of the previous periods. In its original filing, Northern stated its preference for the last option because it would send a signal to the customers that prices are up but does not create the sizeable bill impact that would occur should the total period under-collection be recovered in the remaining four months. Northern estimates that recovery over four months would result in an increase in average-usage level residential bills of approximately 15.72%, or \$5.04, over current rates.²

² Average residential summer usage is approximately 30 therms per month.

The bill impact of the 10-month collection scenario on residential customers during the remainder of the 2000 summer period would be 6.04%, or \$1.94, per month. Recovery over the six months comprising the summer 2001 period (i.e. if we made no mid-course adjustment for this summer period) would result in a minimal average monthly residential bill impact, .07% or \$.02 per month, in comparison to bills under existing rates. This is because Summer 2001 rates are expected to be lower than Summer 2000 rates by an amount equal to the rate component necessary for recovery of a 1999 summer period under-collection.

Staff recommends that we approve a mid-course correction that adjusts the rate to match current gas prices in order to mitigate future under-collections during this summer period. Staff also recommends that amounts that Northern has under-recovered during May and June be included for reconciliation in the normal manner in its Summer 2001 CGF filing. Doing so will provide consumers with price signals that reflect actual market conditions while avoiding a burdensome rate impact that would occur if the rate were also designed to recover the May and June, 2000 under-collections in the remaining months of this summer period. Both Northern and OPA concur with this recommendation.

We must consider the possibility that rate “shock” could result from a sizable increase in current rates. Against this we weigh the benefits of a more accurate price signal when rates more closely reflect the market price for gas.

If the rate Northern charged for the remainder of the summer 2000 period were adjusted to reflect current market gas futures prices, the average residential bill impact would be approximately 9.11% or \$2.92 per month. The under-recovery that has accrued in the months of May and June, estimated to be approximately \$550,000, could be collected during the next summer period through the normal reconciliation process for cost of gas adjustments. This resolution produces a price for the remaining current summer period that reflects the current gas costs and defers recovery of the current under-collection to next summer, as would be the normal practice.

Finally, Northern proposes to allocate the rate adjustment equally to all classes of customers despite the fact that each underlying class rate is calculated according to the usage characteristics of the class. Northern states that the difference between correcting class rates on an across-the-board basis and one applying specific rate adjustments developed for each class would be minimal during the summer period because all customers use base or pipeline gas supply in this period. Northern argued that for this reason, these circumstances do not warrant the effort that would be necessary to adjust the rates by class. The OPA did not object to the mid-course correction being handled this way if the bill impact was minimal.

Based upon the information filed by Northern, Staff agrees that the different class responsibilities for increased summer gas supply prices appear to be minimal and therefore, recommends that one correction rate be applied to all classes. However, Northern should be on notice that we may wish to pursue the relative benefits of

detailed class reconciliation in the future given that across-the-board allocations of prior period reconciliation amounts work to dampen the benefits of establishing separate CGF rates for different customer classes.

IV. CONCLUSION

We approve Northern's proposed 2000 Summer Period CGF mid-course correction as revised based on the Advisory Staff's recommendation.

Accordingly, we

O R D E R

1. That Northern Utilities, Inc.'s proposed revised CGF rates filed June 22, 2000 shall take effect for gas consumed on or after July 1, 2000;
2. That Northern Utilities, Inc.'s Thirty-Third Revised Sheet No. 20.1 constituting its Cost of Gas Factor for the period July 1, 2000 through September 30, 2000, filed on June 23, 2000, is approved;

Dated at Augusta, Maine, this 29th day of June, 2000.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

Voting to Approve: Welch
Nugent
Diamond

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Civil Procedure, Rule 73, et seq.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.